

ASIAN DEVELOPMENT BANK

TAR:PHI 37233

TECHNICAL ASSISTANCE
(Financed by the Japan Special Fund)

TO THE

REPUBLIC OF THE PHILIPPINES

FOR PREPARING THE

INTERMODAL TRANSPORT DEVELOPMENT PROJECT

May 2004

CURRENCY EQUIVALENTS

(as of 18 May 2004)

Currency Unit	–	peso (₱)
₱1.00	=	\$0.017889
\$1.00	=	₱55.90

ABBREVIATIONS

ADB	–	Asian Development Bank
ARMM	–	Autonomous Region of Muslim Mindanao
ATO	–	Air Transportation Office
BIMP-EAGA	–	Brunei, Indonesia, Malaysia, and Philippines East ASEAN Growth Area
CSPU	–	country strategy and program update
DOT	–	Department of Tourism
DOTC	–	Department of Transportation and Communications
DPWH	–	Department of Public Works and Highways
EIA	–	environmental impact assessment
EIB	–	European Investment Bank
IA	–	implementing agency
IEE	–	initial environmental examination
ISA	–	initial social assessment
JBIC	–	Japan Bank of International Cooperation
JSF	–	Japan Special Fund
LGU	–	local government unit
MEDCO	–	Mindanao Economic Development Council
MTPDP	–	Medium-Term Philippine Development Plan
NEDA	–	National Economic and Development Authority
PHIVEDEC	–	Philippine Veterans Development Corporation
PMO	–	project management office
PPA	–	Philippine Ports Authority
PPMS	–	project performance monitoring system
PSA	–	poverty and social analysis
PSP	–	private sector participation
RORO	–	roll on-roll off
SRNHP	–	Strong Republic Nautical Highway Project
TA	–	technical assistance

NOTE

In this report, "\$" refers to US dollars.

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I. INTRODUCTION

1. During the 2003 Country Programming Mission, the Government of the Philippines (the Government) requested the Asian Development Bank (ADB) to provide technical assistance (TA) to prepare the Intermodal Transport Development Project for southern Philippines as part of the 2004 nonlending program. During the Fact-Finding Mission in October 2003, ADB reached an understanding with the Government on the objectives, scope, terms of reference for consulting services, cost estimates, financing plan, and implementation arrangements of the TA.¹ Appendix 1 gives the preliminary project framework.

II. ISSUES

A. General

2. Transport in the Philippines is essentially multimodal, a journey through the archipelago usually combining air, sea, and road transport. Intermodal transport systems and their connections to the hinterland play a crucial role in the economic development of the widely dispersed regions of the country, and provide a lifeline access for remote areas with high poverty incidence. Improving the intermodal transport system is consistent with the development policies/strategies for the transportation sector as enunciated in the current Medium-Term Philippine Development Plan (MTPDP). The ADB-assisted Philippine Transport Strategy Study completed in 1997 provided inputs for the transport sector aspects of the MTPDP. The study (i) concluded that the most interesting possibilities in multimodal/intermodal routes are the road-sea routes among the country's islands utilizing both fast-craft and RORO ferries, (ii) emphasized that improving road links that facilitate efficient intermodal transport in the region should be given high priority in the road program, (iii) suggested ways in which the Government can help the private sector provide intermodal transport system, and (iv) explored modalities to develop local air/sea routes to improve access to small islands.

3. Major constraints to increased regional investment and development include inadequate infrastructure facilities and lack of reliable, safe, and efficient transport services, which significantly hamper the movement of passengers and cargo, and consequently limit direct internal and external trade links as well as tourism. While the above constraints may be observed throughout the country, they particularly contribute to and exacerbate retarded development and poverty in southern Philippines. Within the southern Philippines, Mindanao and Palawan islands are considered priority areas for development. It was therefore agreed with the Government that the TA will focus on these areas, which will also provide a more balanced regional development, and support ADB's commitment to the development of the Brunei, Indonesia, Malaysia, and Philippines East ASEAN Growth Area (BIMP-EAGA). The Government is also preparing a Mindanao investment plan that is still being finalized, to identify priority programs and projects in Mindanao in all sectors, including infrastructure, but which does not specifically address intermodal transport issues.

B. Water Transport

4. The port network in the study area includes 14 primary and secondary ports under the Philippines Ports Authority (PPA), as well as hundreds of tertiary ports — also known as feeder or municipal ports — which are under the responsibility of the Department of Transportation and Communications (DOTC), local government units (LGUs), Autonomous Region of Muslim Mindanao (ARMM), or private sector. Some provinces have many feeder ports: Surigao del

¹ The TA first appeared in *ADB Business Opportunities* (Internet edition) on 26 May 2003.

Norte (169), Palawan (65), Sulu (55), and Zamboanga del Sur (54). PPA's mandate is to manage public ports, which are not devolved to LGUs. Other port operators are Fisheries Development Ports Authority and Philippine Veterans Development Corporation (PHIVEDEC), responsible for fishery ports and Mindanao Container Terminal in Cagayan de Oro, respectively. Project management office-Ports (PMO-Ports) of DOTC is responsible for the construction of feeder ports, which are basically nonrevenue ports to be transferred to LGUs for operation after construction. Inland ports and water transport, such as on Lanao Lake, also are significant. A major issue in ports development is the inadequate funding sources, leading to limited port facilities particularly for container and roll on-roll off (RORO) operations. Lack of maintenance for feeder ports and insufficient enforcement of safety regulations on passenger ships are other major subsector issues.

5. Between 1995 and 2000, sea passenger traffic in the Philippines grew steadily from 44.3 million to 56.6 million, or about 5% annually, while cargo traffic grew from 150 million to 170.5 million tons, or about 2.5% annually. Passenger traffic and domestic cargo traffic in the study area account for about 40% and 29%, respectively, of the total maritime traffic in the Philippines.

C. Air Transport

6. Air transport is also a vital mean of transportation in the study area, not only to link different islands but also to develop linkages with neighboring countries, such as Brunei Darussalam, Indonesia, and Malaysia. Air traffic is mainly attributable to tourism, industry, and business. The study area has 24 airports. The airports are maintained and managed by the Air Transportation Office (ATO), but expansion or new projects are undertaken by DOTC. At present, most of the airline network provide links between Manila and Cebu as hubs with several major spoke airports, such as Davao, Cagayan de Oro, General Santos, Zamboanga, and Puerto Princesa. Limited intra-Mindanao regular air services, associated with severe peace and order problems faced by land transport on some of the main routes, create a high cost and long travel time for intransland trips. The Government also realized that civil aviation plays an essential role in the development of international tourism in the Philippines. The Department of Tourism (DOT) has, therefore, outlined its strategy to improve access — especially by air, and other infrastructure — to key tourist destinations. In the study area, Davao has been identified as one out of five tourism gateways in the Philippines.

7. The air traffic in the study area in 2002 was about 2.3 million, or approximately 11% of the total air traffic in the country. The economic crisis in 1997 resulted in the decrease in the total passenger traffic from about 22.5 million in 1997 to 19.4 million in 1998. The traffic level in 2002 (20 million) was still below the level in 1997. Air traffic in southern Philippines has also declined sharply due to the economic crisis and safety issues for travel in the area. Only a few airports, like those in Davao, Cagayan de Oro, and Zamboanga, have recorded a slight increase in air traffic during 1998–2002.

D. Road Transport

8. Road infrastructure plays an important role in intransland movement. However, road density in Mindanao and Palawan is estimated at 0.3 kilometer (km)/km², which is less than half the average road density in the Philippines (0.67 km/km²). National arterial roads managed by the Department of Public Works and Highways (DPWH) provide the main trunk line system connecting major population centers and linking regions, whereas national secondary roads provide linkages among provincial centers within the regions. Provincial roads provide the connections within provinces, interconnecting municipalities and linking them to national roads and public wharfs, railway stations, and ports. Since these roads are about 75% of the total road

length, it is essential that provincial governments and LGUs integrate their plans with the national Government's road master plan.

E. Common Issues

9. Transport subsectors face common issues and need to: (i) develop an intermodal planning approach to integrate the subsector development plans and improve connection of inter- and intra-island transport systems; (ii) develop an appropriate pricing policy to recover costs of commercial operations; (iii) improve the efficiency of operations and management; (iv) establish a clear policy for the Government, its attached agencies, local government, and private sector to finance the development of commercial and noncommercial infrastructure and facilities; (v) promote private sector participation (PSP) by improving the existing legal and regulatory framework for PSP and providing appropriate incentive schemes for the private sector; (vi) establish a sustainable mechanism for operating and maintaining noncommercial infrastructure, as well as related transport services, so as to improve access and level of service in remote areas; (vii) improve safety through a regulatory and enforcement system, including policies for renewing ageing fleets; (viii) provide adequate road maintenance; and (ix) promote efficient transport services in all modes to increase mobility and improve accessibility.

F. External Assistance

10. For maritime transport, the major source of external assistance is the Japan Bank for International Cooperation (JBIC), which is financing construction and rehabilitation of fishing ports, feeder ports, and the PHIVEDEC Mindanao Container Terminal. Future JBIC assistance will include the RORO Ferry Network Development Project, which is part of the Trans-Visayas intermodal transport network system. The United States Agency for International Cooperation funded the Growth with Equity in Mindanao, a Mindanao Economic Development Council (MEDCO) program to provide capital assistance to ARMM for medium-scale infrastructure, including roads and ports. The World Bank is also funding small port projects in ARMM. In the past, ADB had financed port projects in the Philippines including fishery ports, Cotabato Port and Manila Port, and a project preparatory TA on feeder ports in the late 1980s, which did not recommend further investment in this sector at that time.

11. For air transport, ATO is developing its air navigation facilities through the Nationwide Air Navigation Facilities Modernization Project funded by JBIC, completed in 2003. JBIC will also provide funds to modernize communication navigation surveillance/air traffic management to ensure more effective traffic management in Manila air space, subsequent to provision of an Aeronautical Fixed Telecommunication Network and Airport Information System under ADB financing. ADB and the European Investment Bank (EIB) have jointly funded the upgrading of Davao Airport into an international airport. The Third Airport Development Project also financed by ADB and EIB, intended to upgrade six airports (Puerto Princesa, Cotabato, Sanga-Sanga, Dipolog, Butuan, and Pagadian), was partially cancelled due to delay in project preparation. ADB and EIB agreed with the Government to re-appraise the six airport projects, and consider financing those that are still economically viable and ready for implementation.

12. These interventions in the maritime and air transport sectors have met some of the infrastructure needs in southern Philippines. However, they were not part of a coherent approach to prioritize infrastructure development and facilitate access to the southern Philippines. The Strong Republic Nautical Highway Project (SRNHP) was designed by the Government in September 2002, as the first attempt to address the need for linking more developed areas of the country with less developed areas in southern Philippines. However, the SRNHP focuses on equipment and logistics to improve intransland road and ferry connections

and develop ferry routes. It does not address the need for priority port and airport infrastructure development to promote interisland transport. The TA will complement the SRNHP by providing an intermodal transport development strategy and prioritizing interisland infrastructure development, which could be financed by ADB. The TA and the expected ensuing project support the Country Strategy and Program Update (CSPU) 2004-2006 for the Philippines. The CSPU assigns high priority to improving access to remote areas of the southern Philippines and enhancing the efficiency of the intermodal transport system, by reducing deficiencies in land, air, and sea transport systems and improving network interconnections.

III. THE TECHNICAL ASSISTANCE

A. Purpose and Output

13. The TA will help the Government formulate an intermodal transport development project that will improve access to southern Philippines and contribute to reduce poverty in this area by (i) preparing an integrated transport development plan for Mindanao and Palawan that will identify key priorities to improve the efficiency of the intermodal (air, sea, and land) transport system,² (ii) formulating recommendations on priority areas for ADB intervention and a program of subprojects suitable for an ensuing ADB-financed project, and (iii) supporting the preparation of the selected subprojects. The summary initial poverty and social analysis is at Appendix 2.

B. Methodology and Key Activities

14. The TA will be conducted in two phases. Following an integrated transport system approach and building on the recommendations of the planning studies for the various transport subsectors, phase 1 will (i) identify the priority interventions (capital investment, policy reform, and institutional strengthening) to improve the complementary road-port-airport network and related transport services in Mindanao and Palawan; and (ii) identify suitable areas of intervention for ADB, select candidate subprojects from a shortlist of projects based on priorities of intervention, and recommend an investment program for preparation in phase 2. During a tripartite meeting at the end of phase 1 to review the consultants' findings and recommendations, the Government and ADB jointly will confirm the focus of phase 2 and agree on a list of candidate subprojects and the principles guiding the corresponding implementation and financing arrangements. In view of the type and status of preparation of the selected subprojects, the Government and ADB will jointly decide whether a project or a sector loan approach will be followed in phase 2, and the scope and terms of reference of phase 2 will be finalized accordingly.

15. Phase 2 (project preparation) will then (i) carry out feasibility studies of the subprojects selected during phase 1, including technical, economic, and financial appraisal, and assessment of environmental, social, and poverty impacts; and (ii) finalize the project scope, implementation and financing arrangements, required capacity building measures, and supporting policy and institutional reform agenda addressing governance and developmental impact issues. Outline terms of reference for consulting services for phases 1 and 2 are in Appendix 3.

C. Cost and Financing

16. The total cost of the TA is estimated at \$1.426 million equivalent, comprising a foreign exchange component of \$647,000 and a local cost component equivalent to \$779,000. ADB will provide \$1.0 million to finance the total foreign exchange cost and a portion of the local currency

² In particular, the Government already indicated its priority for feeder ports development.

cost of \$353,000 equivalent. The TA will be financed by ADB on a grant basis from the Japan Special Fund, funded by the Government of Japan. The Philippine Government will provide the remaining \$426,000 equivalent in kind in the form of office accommodation, counterpart staff, and data/surveys/studies related to the TA. A detailed cost estimate is in Appendix 4. The Government was advised that approval of the TA does not commit ADB to finance any ensuing project.

D. Implementation Arrangements

17. The TA will require a total of about 61 person-months of consulting services: about 24 international and 37 domestic. The international consultants will have expertise in (i) transport planning and economics, (ii) air transport, (iii) maritime transport, (iv) financial analysis and public-private partnership, (v) institutional development, (vi) social development and resettlement, and (vii) environment. An international consulting firm in association with domestic consultants will be recruited in accordance with ADB's *Guidelines on the Use of Consultants*, using quality- and cost-based selection and other arrangements satisfactory to ADB for engaging domestic consultants.

18. DOTC will be the Executing Agency for the TA. A counterpart team led by the Transport Planning Service of DOTC assisted by PMO-Ports will be established to coordinate TA activities and work daily with the consultants. To promote transfer of knowledge to the staff, DOTC will provide full-time counterpart staff that will work with the consultants in an integrated team.

19. A steering committee comprising DOTC, DOT, National Economic and Development Authority (NEDA), Department of Finance, DOTC attached agencies, DPWH, Department of Interior and Local Governments, MEDCO, and ARMM will be established to oversee TA implementation. An integrated transport plan will be submitted to the Inter Agency Committee for Transport Planning chaired by NEDA. Local stakeholders, including local government, nongovernment organizations, private sector and civil society, will be involved through national workshops and regional consultations. Local governments participating in the Project as subproject implementing agencies, if any, will be also represented in the steering committee during phase 2. DOTC will provide the consultants with office accommodation and communications facilities and ensure that all data and information relevant to the TA are available to the consultants when needed. Office equipment for the project management office will be procured by the consultants under their contract in accordance with arrangements satisfactory to ADB, and will be transferred to DOTC upon completion of the TA.

20. The consultants will be fielded in November 2004 and will carry out their work over 11 months ending in September 2005. They will submit their inception, interim (2), and draft final reports before the end of months 1, 4, 7, and 10, respectively. Tripartite meetings involving the Government, ADB, and the consultants will discuss the findings of these four reports.

IV. THE PRESIDENT'S DECISION

21. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$1,000,000 on a grant basis to the Government of the Philippines for preparing the Intermodal Transport Development Project, and hereby reports this action to the Board.

PRELIMINARY PROJECT FRAMEWORK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Goals</p> <p>Economic growth in Mindanao and Palawan</p> <p>Reduced poverty in Mindanao and Palawan</p>	<p>GDP increased</p> <p>Per capita income increased</p> <p>Number of private business in airport and port increased</p> <p>Percentage of population below poverty line decreased.</p> <p>Rural employment increased</p>	<p>Government official statistics</p> <p>ADB monitoring of baseline Indicators</p> <p>ADB poverty assessment indicators</p> <p>Baseline surveys</p>	
<p>Purposes</p> <p>Improved transport accessibility, efficiency and sustainability in Mindanao and Palawan, with a focus on high poverty areas.</p> <p>Increased private sector participation (PSP) in intermodal transport infrastructure investments and services</p>	<p>Passenger traffic increased</p> <p>Freight traffic increased</p> <p>Service frequency on selected routes increased</p> <p>Accident rates reduced</p> <p>Transport fares on selected routes decreased</p> <p>Travel time on selected routes decreased</p> <p>Number of direct routes increased</p> <p>Private operators will be involved in the newly designed public-private partnership investments and operations.</p>	<p>Government official statistics</p> <p>Operator statistics</p> <p>Traffic monitoring surveys</p> <p>Project Completion Report (PCR)</p> <p>Project Performance Audit Reports (PPAR)</p>	<p>Purpose to Goal</p> <p>Assumptions:</p> <p>Stable peace and order situation in the project areas</p> <p>Facilities will be properly maintained and will not deteriorate.</p> <p>New business enterprises will emerge as a consequence improved transport efficiency.</p> <p>Risk:</p> <p>General legal and regulatory framework for PSP is not improved.</p>

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Outputs</p> <p>Framework for intermodal transport strategy in Mindanao and Palawan strengthened</p> <p>Transport infrastructure and facilities upgraded</p> <p>Transport service operation reorganized and expanded</p>	<p>Plan prepared and agreed upon by the end of July 2005</p> <p>Agency's capacity improved</p> <p>Selected airports and ports upgraded</p> <p>Traffic safety measures at selected ports and airports implemented</p> <p>New routes established</p> <p>Level of service on selected routes improved</p> <p>Sustainable funding mechanism established</p>	<p>Published intermodal transport strategies, plans, and programs</p> <p>Transport infrastructure maintenance budget and expenditure records</p> <p>EA and IA Progress reports</p> <p>ADB review missions</p> <p>Consultant's reports</p> <p>PCR and PPAR</p>	<p>Output to Purpose</p> <p>Assumption:</p> <p>Competition in transport services allows reduction of transport costs leading to reduction of transport fares.</p> <p>Risk:</p> <p>High capital investment in infrastructure development, limited experience and low capacity in the PSP scheme may result in poor services.</p>
<p>Activities</p> <p>Intermodal transport reform</p> <p>Airport construction</p> <p>Port construction</p> <p>Airport/port access road construction</p> <p>Land acquisition and rehabilitation</p> <p>Transport service development</p>	<p>Implementation period and agencies responsible for every activities are to be determined during the PPTA implementation.</p>	<p>Project Management Office reports</p> <p>Training workshop reports</p> <p>ADB review missions</p> <p>Consultant's reports</p> <p>PCR and PPAR</p>	<p>Activity to Output</p> <p>Assumptions:</p> <p>Counterpart organization is amenable to proposed reforms.</p> <p>Private sector is interested in the infrastructure investments and transport service operations.</p>

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Inputs</p> <p>Consulting Services</p> <p>Civil Works</p> <p>Equipment and Supplies</p> <p>Counterpart contribution</p>	<p>PPTA Consultants will be fielded by November 2004. Final report will be available by September 2005.</p> <p>Consulting services for detailed design, supervision and other services are to be determined.</p> <p>Amount of loan and counterpart contribution are to be determined.</p>	<p>ADB project disbursement documents</p>	<p>Input to Activity</p> <p>Assumptions:</p> <p>Budget is sufficient.</p> <p>Timely recruitment on consultants</p> <p>Risks:</p> <p>Government delay in contract approvals</p> <p>Government delay in providing counterpart funding</p> <p>Government delay in providing counterpart staff</p>

Note: The TA will further define and quantify project outputs and inputs and related performance indicators and targets.

SUMMARY INITIAL POVERTY AND SOCIAL ANALYSIS (IPSA)

A. Linkages to the Country Poverty Analysis

Sector identified as a National Priority in Country Poverty Analysis?	Yes	Sector identified as a National Priority in Country Poverty Reduction Partnership Agreement?	Yes
<p>Contribution of the sector/subsector to reduce poverty in Philippines. By targeting isolated areas with high poverty incidence and including not only improvement but also development of transport infrastructure such as small ports and airports or sea/air landing facilities, the Project will link remote communities to provincial centers/markets and foster both economic growth and poverty reduction in the targeted areas. Moreover, as one of its components focuses on transport services, the Project has potential to address transport users needs, and thus to target direct poverty reduction objectives. During technical assistance (TA) implementation, the pursuit of this objective in various directions will be studied: establishment of mechanisms fostering lower transport prices; development of initiatives favoring private sector transport services and increased competition; improvement of transport logistics, cargo/storage space distribution, and schedules so as to fit the needs of the poorer transport users; or provision of small infrastructure or services that may improve the trading potential of the poor and improve their access to transport.</p>			

B. Poverty Analysis Proposed Classification

<p>What type of poverty analysis is needed? Poverty analysis will be an integral part of subproject selection/design and will be based on quantitative and qualitative methodologies. Subproject selection will include the combined analysis of sector poverty data with country, region, and subproject level poverty data and will involve field-based poverty assessments/stakeholder consultation. Subproject planning/design will entail comprehensive social analysis to identify the type of intervention that may directly benefit the poor.</p>
<p>Poverty Classification (final classification will depend on TA and loan processing findings) Other</p>

C. Participation Process

<p>Stakeholder analysis. Project selection will entail organizing consultation workshops at national and regional levels, involving all major stakeholders —transport providers, transport users, and concerned nongovernment organizations (NGOs) with interest in intermodal transport issues. Once the subprojects are selected, consultation with local stakeholders will be at the core of subproject design and implementation. Participation and consultation mechanisms will have particular intensity in defining intervention under the transport services component. For small-scale subprojects targeting specific communities, project planning and implementation may be carried out through community-driven design mechanisms directly involving the beneficiary communities and NGOs.</p>
<p>Participation strategy required Yes</p>

D. Potential Issues

Issues	Significance	Strategy to Address Issues	Plan Required
Resettlement	Uncertain	Land acquisition and resettlement needs and significance will be determined for each subproject after subproject selection, which will be based on severity of the issue.	Not known
Gender	Significant	The gender dimension of poverty will be assessed by social assessment and poverty analysis to identify pro-poor measures fitting beneficiaries across gender lines. Women will be fully represented in consultation and participation mechanisms to ensure that project provisions reflect needs arising from their role in the domestic economy and trading processes.	Not known
Affordability	Significant	Subprojects are selected in such a way to ensure that ensuing investments are affordable.	Not known
Sustainability	Significant	Subproject selection will consider sustainability; at design and implementation stages sustainability will be further ensured.	Not known
Labor	Uncertain	Each subproject implementation plan will consider the distribution of project-derived jobs to beneficiaries.	Not known
Indigenous People	Uncertain	Subprojects in remote areas may involve indigenous peoples issues. The magnitude and type of documentation required will be established by the initial social assessment to be prepared in parallel with subproject selection.	Indigenous peoples policy Framework
Other Risks/Vulnerability		The possibility that outsiders will receive greater project benefits than people in the project areas needs to be mitigated through project design. Issues of Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome and human trafficking are to be addressed in the project design.	Not known

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. Phase 1: Project Formulation

1, Phase 1 will prepare an intermodal transport³ development plan for southern Philippines, identify priority areas of intervention for the Asian Development Bank (ADB)-financed intermodal transport development project, and screen candidate subprojects. The study area will be Mindanao and Palawan. The following tasks will be carried out.

- (i) With a focus on the project area, collect updated information on the air and water⁴ transport systems in the Philippines, related to (a) networks; (b) operators and operations; (c) civil aviation, shipping and ferry, and land transport industry; (d) safety; (e) fares and tariffs; and (f) movement of goods.
- (ii) Discuss and review with the Government and other stakeholders: (a) the Government's medium- and long-term strategies and development plans for air and water transport and priorities; (b) complementarities with ongoing and planned projects;⁵ (c) transport and development/poverty reduction issues; (d) status of policies and policy reforms; (e) recommendations of recent studies;⁶ and (f) lessons from previous projects.
- (iii) Analyze air and water transport systems in the project area using data on infrastructure network, cargo and passenger flows;⁷ intermodal connections; links with Brunei, Indonesia, Malaysia, the Philippines-East ASEAN Growth Area (BIMP-EAGA)⁸ countries; transport fleets; and transport fares and tariffs.
- (iv) From the review of the Department of Public Works and Highways (DPWH) road master plan, road planning studies (footnote 3), and traffic statistics, identify the main land transport corridors, their traffic flows and problem areas, and the key links to improve for adequate connections with the port and airport networks.
- (v) Review national/regional economic development plans and data (including integrated development areas and regional development cooperation initiatives) and national/regional planning reports, which will form the basis for subsequent analyses. Identify the status of these plans.

³ In the context of the TA, intermodal transport refers to the integrated air, water, and land transport systems, consisting of inter- and intra-island routes.

⁴ Water transport includes maritime, ferry and inland water transport.

⁵ Including the Japan Bank of International Cooperation-financed roll on-roll off Ferry Network Development Project under the Trans-Visayas Intermodal Transport Network System and the Nationwide Feeder Ports Development Program, as well as the proposed ADB-financed Southern Philippines Airport Development Project and Rural Road Development Project.

⁶ The following studies will be of particular relevance for the technical assistance: ADB. 1997. *Philippine Transport Strategy Study*. Manila; ADB. 1997. *Civil Aviation Master Plan*. Manila; ADB. 2003. *Technical Assistance to the Republic of the Philippines for Rural Road Development Policy Framework*. Manila; Department of Interior and Local Government. 2003. *Mindanao Investment Plan*. Manila; World Bank. 1999. *Master Plan Study on Visayas and Mindanao Island Strategic Road Development*. Manila; Japan International Cooperation Agency. 2003. *National Ports Study*. Manila; OECF. 2000. *Master Plan for Feeder Port Development*. Manila.

⁷ Since origin and destination data are not available, the consultants will have to develop a trip matrix from available port and airport statistics using an appropriate tool.

⁸ ADB funded Regional TA 6013: *Strengthening Subregional Cooperation in the Transport Sector of the Brunei, Indonesia, Malaysia, and Philippines East ASEAN Growth Area and Indonesia Malaysia Thailand-Growth Triangle* countries completed in 2003 could be of particular relevance.

- (vi) Following review/update of existing data and forecasts, determine base year and future traffic for the modes of transport, and analyze the modal choice behavior and demand level to identify the main intermodal transport corridors, modes, flows and prioritize development needs. The forecasts should be adequate for selecting subprojects in phase 1 and as basis for the feasibility studies in phase 2.
- (vii) Review the institutional framework for intermodal transport infrastructure and services, and financing issues. Include the role of various agencies involved in port and airport development, modalities for devolving port and airport operations to local government units (LGUs), and funding policies and mechanisms of the Government, LGUs, attached agencies, and private sector to finance the development of commercial and noncommercial transport infrastructure and services. Identify institutional constraints to such development under decentralization, including the particular situation of the Autonomous Region of Muslim Mindanao (ARMM), and implications for project financing and implementation.
- (viii) Review the legal and institutional framework, and recent and ongoing initiatives for private sector participation (PSP) in intermodal transport infrastructure and services; determine the opportunities and potential operational modalities (including risk allocation scheme) for public private partnership (PPP) in intermodal transport in southern Philippines.
- (ix) Prepare recommendations for improving of access to remote areas through sustainable commercial/missionary air and maritime feeder services, and for establishing a sustainable funding mechanism within the Project.
- (x) Hold regional and national consultation workshops with the actors and stakeholders in intermodal transport ARMM, Mindanao Economic Development Council (MEDCO), LGUs, transport operators and users, nongovernment organizations, private sector, and civil society.
- (xi) Integrate the results of the reviews, analyses, and consultations carried out in (i)–(x), and develop an integrated plan to overcome/mitigate problems, take account of economic development opportunities, and improve the efficiency and safety of the intermodal transport system in the project area. The consultants will include (a) the review of the output of recent relevant studies, lessons from previous projects, Government policies and programs, current organization of intermodal transport systems, current traffic demand, institutional framework (including ways to address/overcome implementation constraints), and opportunities for PSP/PPP; (b) results of consultations with all stakeholders; (c) traffic forecasts; and (d) recommended policies, infrastructure, transport network organization, transport services (including fleets), and transport safety systems (including security aspects).
- (xii) Prepare a long list of candidate subprojects for medium-term implementation including priority projects and ongoing studies of the Government, ARMM, LGUs.

- (xiii) Recommend priority areas for ADB intervention and key issues for policy dialogue.⁹ Propose a short-list of candidate subprojects for ADB financing, using these steps: (a) develop criteria for screening and ranking them by technical, economic, financial, environmental, and poverty/social/resettlement aspects, as well as Government priorities, project readiness, and geographic focus of ADB's country strategy and program; (b) prepare the needed data to support the screening/prioritization criteria; and (c) screen and rank subprojects in the long list, and make recommendations for including them in the Project.
- (xiv) For each candidate subproject (a) determine the scope of work for the corresponding feasibility studies and environmental and social evaluation during phase 2; (b) identify the implementing agency (IA) for subproject preparation, review its project preparation capability, and assess its need for strengthening in technical, economic, financial, environmental, and social fields; identify the IA for subproject implementation and review its financial and implementation capacity; (c) identify the environmental category of the subproject using ADB's rapid environmental assessment checklist; review the IA's environmental management and monitoring capacity; and (d) prepare an initial social assessment (ISA) using ADB's *Handbook on Poverty and Social Analysis*; identify and analyze any constraints to land acquisition and resettlement activities that may affect subproject preparation and implementation, and recommend ways to overcome them.

2. At a tripartite meeting at the end of phase 1, the Government and ADB will jointly review the consultant methodology, findings, and recommendations, and will agree on (i) priority areas of intervention for the ensuing Intermodal Transport Development Project, (ii) a list of candidate subprojects to be further prepared for ADB financing, (iii) the corresponding IAs for project preparation (phase 2 of the TA) and implementation; and (iv) the principles guiding the financing arrangements for each subproject (contributions of the Government, DOTC attached agencies, ARMM, and LGUs) and onlending arrangements, if required. Feasibility studies to be undertaken during phase 2 will also be listed at the tripartite meeting, and the scope and terms of reference of phase 2 will be finalized. The consultants will incorporate the comments, and prepare a phase 1 final report/inception report for phase 2, including needed changes in the scope of work in phase 2.

B. Phase 2: Project Preparation

3. Phase 2 will consolidate the subprojects selected in phase 1 to develop a project suitable for ADB financing.¹⁰ The following tasks will be undertaken.

- (i) Carry out technical, economic, and financial appraisal of the selected subprojects, in maximizing PSP, and prepare feasibility studies following ADB guidelines. In particular: (a) review the key outputs from phase 1, socioeconomic data collected, and assumptions and methodology used for traffic forecasting; (b) review the scope of each subproject, including suitable components for PSP, and prepare capital and recurrent cost estimates; include coastal road connections to achieve the anticipated benefits and service quality; (c) prepare the economic analysis of the proposed project and each subproject following ADB's *Guidelines for the*

⁹ Such key issues will include policy and institutional constraints to intermodal transport development under decentralization, project implementation and sustainability, and channeling project benefits to the poor.

¹⁰ Subproject grouping and contract packages will be based on the *Guidelines for Procurement under ADB Loans*.

Economic Analysis of Projects; determine the economic benefits and analyze their distribution among beneficiaries; carry out risk analysis following ADB's guidelines, and recommend measures to eliminate or mitigate such risks; (d) prepare the financial analysis of the proposed project and each subproject following ADB's *Guidelines for Financial Governance and Management of Investment Projects*, including impact on the financial performance of project operating entities and detailed financial projections; (e) analyze tariffs and fares and recommend cost recovery measures for the project operating entities to consider; and for setting up financial and operational performance targets for more autonomy and accountability; and (f) develop PSP components, and provide guidelines on a legal and regulatory framework, project structuring and risk sharing, incentives for the private sector, financing, procurement, and contractual arrangements for these components.

- (ii) Using the environmental categorization in phase 1, review in detail the Government's environmental reports. Ascertain their conformity with ADB's *Environmental Assessment Guidelines* (2003), make appropriate technical comments to help Government finalize an environmental impact assessment (EIA)/initial environmental examination (IEE) report, and prepare a summary IEE/summary EIA report for each subproject. Recommend capacity building in environmental management and monitoring for IAs.
- (iii) Determine the need for land acquisition and compensation/resettlement for the selected subprojects; prepare a compensation policy framework and procedural guidelines, indicating general compensation and implementation procedures for the whole project, and individual land acquisition and resettlement plans for each subproject, in accordance with applicable laws and regulations and ADB's Policy on Involuntary Resettlement.
- (iv) In line with ADB's Policy on Indigenous People, prepare a policy framework for the Project, and a development plan for each subproject affecting indigenous people.
- (v) Conduct desk/field investigations for poverty and social analysis (PSA), consult with local stakeholders, and prepare a PSA report meeting the requirements of ADB's *Handbook on Poverty and Social Analysis*, using available national, regional and local statistics, include for the Project in general and each subproject area a socio-economic profile, a poverty profile, and a stakeholder analysis. The PSA will also identify (a) poverty issues related to livelihood, trade, and transport patterns in the Project areas based on statistical analysis and fieldwork; and (b) complementary physical/nonphysical interventions that may, if included in the Project, add to its poverty reduction potential, e.g., activities that would be suitable for funding under the Japan Fund for Poverty Reduction. Finally, on the basis of field investigations, the PSA will provide a social assessment of (a) the qualitative dimension of gender, age, ethnicity, education, livelihood patterns, and social vulnerability; and (b) the way local socioeconomic and political patterns may cause risks or opportunities in implementing the Project.
- (vi) Assess quantitatively the poverty impact of the Project, using ADB's methodology. With the project area or project influence area as the basis for analysis, outline the mechanisms, including micro- and macro-effects, through which the Project will help reduce poverty. Identify relevant indicators; formulate the methodology, plan,

timing, and resource requirements to monitor the impact on poverty in the project influence area, and ensure that such indicators are introduced in the project framework and the project performance monitoring system (PPMS). Also, phase 2 will fine-tune the framework outlined in Appendix 1 to develop the PPMS.

- (vii) On the basis of the feasibility studies' cost estimates, help finalize the financing arrangements for each subproject: the contribution of the private sector, Government and attached agencies, ARMM, and LGUs, and onlending arrangements, if required. Propose ways to ensure proper maintenance of the subprojects, including through PSP and financial incentives, if necessary.
- (viii) Prepare a detailed implementation schedule for each project component, as well as for the overall Project. Prepare the project disbursement schedule. Identify critical project preparation activities and prepare a time-bound action plan to expedite them.
- (ix) Recommend appropriate arrangements for project implementation for DOTC and the various IAs (DOTC attached agencies, LGU, ARMM) as well as modalities for involvement of the private sector national and LGU agencies in charge of regional and infrastructure development. Propose an organizational scheme.
- (x) Recommend ways to strengthen the coordination and monitoring capacity of the DOTC and the implementation capacity of the IAs; focus on project preparation and implementation for resource persons in the IAs; draft terms of reference for project coordination and implementation consulting services under the Project, and assist the IAs in preparing invitations for consultants.
- (xi) Identify performance parameters for benefit monitoring and evaluation of the Project and formulate a project framework in accordance with ADB guidelines.
- (xii) Prepare an action plan for policy dialogue on areas identified in phases 1 and 2 as contributing to the weak performance of the sector; ensure full understanding of the constraints and policy alternatives to address them. Draft terms of reference to help the Government and concerned stakeholders address the issues in a time-bound manner.
- (xiii) Identify strengthening and training requirements for project-operating entities to meet the Government's policy objectives and to improve their financial and operational status; draft terms of reference for consulting services for capacity building.

C. Timing and Reporting Requirements

17. The TA will be implemented over 11 months: 4 for phase 1, and 5 for phase 2 (with a 2 month interval between the phases). The consultants will submit to the Government and ADB (i) an inception report at the end of month 1 after the TA starts; (ii) a first interim report at the end of month 4 covering phase 1, and a draft ISA; (iii) a second interim report including phase 1 final report and phase 2 inception report at the end of the 1st month of phase 2 including the Government/ADB comments and agreements on proposed subprojects for phase 2, as well as the final ISA; (iv) a draft final report for the whole TA at the end of the 4th month of phase 2, including drafts of the summary IEE/summary EIA, PSA, land acquisition and resettlement policy

framework and procedural guidelines, land acquisition and resettlement plans, an indigenous people's policy framework and development plan, if required; and (v) a final report at the end of the 5th month of phase 2, including summary EIA/summary IEE, ISA, PSA, land acquisition and resettlement policy framework and procedural guidelines, land acquisition and resettlement plans, and indigenous people's policy framework and development plans, if required. Brief monthly progress reports will be submitted at the end of months when no other reports are due. Tripartite meetings involving the Government, ADB, and the consultants will discuss the findings of the inception, interim (2), and draft final reports. The consultants will submit (i) 20 copies of each report to the Government; and (ii) 10 copies of the inception report, interim reports, monthly progress reports, draft final report, and final report to ADB. An electronic copy of the final report on CD-ROM in .pdf format will also be submitted to ADB.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
A. Japan Special Fund Financing^a			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants	482	0	482
ii. Domestic Consultants	0	220	220
b. International and Local Travel	65	16	81
c. Reports and Communications	5	12	17
2. Equipment ^b	15	0	15
3. Workshops ^c	0	25	25
4. Surveys ^d and Data Collection	0	25	25
5. Miscellaneous Administration and Support Costs	0	15	15
6. Contingencies	80	40	120
Subtotal (A)	647	353	1,000
B. Government Financing			
1. Office Accommodation ^e	0	28	28
2. Counterpart Staff and Support Services ^f	0	398	398
Subtotal (B)	0	426	426
Total	647	779	1,426

^a Funded by the Government of Japan.

^b Includes computers and other office equipment for the project management office, to be transferred to the Executing Agency upon completion of the Technical Assistance.

^c Includes regional workshops and a national workshop.

^d Includes technical, socioeconomic, and social surveys.

^e Includes provision of suitably furnished office space and related miscellaneous expenses.

^f Includes counterpart staff remuneration, per diem and honorarium, as well as counterpart staff travel and miscellaneous data collection expenses.

Source: Asian Development Bank estimates.